

Report
of the
Society of Actuaries
Business Decisions (Direct Companies)
Survey Subcommittee

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Introduction

The attached report presents the results of the Survey on the Business Decision practices of direct companies conducted by the Society of Actuaries (SOA) Committee on Life Insurance Mortality and Underwriting Surveys. A separate survey on Business Decision practices from the reinsurers' perspective was conducted and the results are reported separately. A section comparing the results of the two surveys is included as Appendix 2 of this report. The Survey of direct companies relates to the practices of making Business Decisions in life insurance underwriting only. Practices related to table shave programs were excluded. In addition, the Survey did NOT address underwriting disagreement or underwriting/processing errors.

The Survey was conducted in May 2006 and was sent to companies writing individual life insurance business in the U.S. Sixty insurers responded. Not all companies answered all questions. We generally asked for information related to current practices, however, in some questions, we asked for 2005 information.

The intent of the Survey was to gather information on insurers' views and practices with respect to making Business Decisions. Questions were included with respect to making Business Decisions in the preferred risk classification process, the standard/substandard classification process and waiving of requirements. In addition, insurers were asked questions with respect to the reinsurance of Business Decisions. The Committee felt that differences of opinion on what was or was not acceptable were an important aspect of the difficulties some direct companies have recently experienced in their reinsurance relationships and gathering factual data on practices would be valuable.

For purposes of this Survey, we provided two definitions of what comprised a Business Decision. The key to both was the concept that it was a decision "beyond the rules" or "outside the underwriter's intelligent judgment." The definitions are as follows:

Definition 1: A decision which results in a better offer to the customer than that obtained by *strictly* following the company's underwriting guidelines (including any explicitly-defined "stretch" criteria for preferred classes).

Definition 2: A decision which results in a better offer to the customer than that obtained by following the company's underwriting guidelines (including any explicitly-defined "stretch" criteria for preferred classes) where those criteria allow for some underwriter judgment.

Throughout the rest of this document, these will be referred to as "Definition 1" and "Definition 2," respectively.

Within the Survey, respondents were requested to provide additional comments with respect to Business Decisions on preferred risk classes, standard/substandard classes and general practices. There were many comments provided which the Committee felt provided good insight into the various practices and thoughts around Business Decisions. These comments are listed in Appendix 3 - Additional Comments.

Caveat and Disclaimer

While we anticipate and hope that the results prove useful for the industry, there are a couple of caveats that must be made:

- The data the Survey Committee received, while fairly comprehensive, is by no means a look at the whole industry or all Business Decision practices in the marketplace.
- The results are indicative of the Business Decision practices as of May 2006. Practices may have changed since the Survey was conducted.

This Survey is published by the SOA and contains information based on input from companies engaged in the U.S. life insurance industry. The information published in this Survey was developed from actual historical information and does not include any projected information. The SOA and the participating companies do not recommend, encourage or endorse any particular use of the information reported in this Survey. The SOA makes no warranty, guarantee or representation whatsoever and assumes no liability or responsibility in connection with the use or misuse of this Survey.

The Survey Committee thanks all of the companies who participated in this Survey. We also thank those who helped us review this document and offered helpful suggestions and comments. Finally, the Survey Committee thanks a number of the SOA staff for their help in completing this project, especially Jack Luff and Korrel Crawford, without whose help this could not have been completed.

Comments on this report and suggestions for the next survey are welcome and can be addressed to the Committee on Life Insurance Mortality and Underwriting Surveys c/o The Society of Actuaries.

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Executive Summary

Sixty direct insurers responded to the Survey. Not all companies responded to all questions. In some instances, the percentages shown in a table do not add to 100%. This is due to rounding or because a particular question allowed respondents to select more than one response.

The key results are summarized below. All percentages relate to the total number of respondents answering the relevant question.

Preferred Risk Classification

- Nearly 60% of the respondents indicated that **Definition 1** (i.e., no underwriting judgment) most closely matched their definition of a Business Decision.
- Nearly 60% of the respondents also indicated an individual can qualify for a preferred class as a result of a Business Decision. Of these, most (80%) allow Business Decisions to be made for all preferred classes and approximately 70% allow Business Decisions to be made for all face amounts and issue ages.
- The most common reason for granting a Business Decision was to match or beat a competitor's price (58%).
- Business Decisions were most commonly granted for build criteria (56%), family history (39%) and total cholesterol (33%).
- Nearly two-thirds of respondents indicated they account for the impact of Business Decisions in setting their preferred class mortality assumption.
- Thirty-six percent of the respondents track the percentage of Business Decisions made for the preferred classes; over 80% of these made Business Decisions on less than 3% of cases.
- Eight of 20 (40%) respondents indicated they target or manage to a specific Business Decision percentage on their preferred risks; all manage to a percentage of 4% or less.
- Over two-thirds of respondents indicated they have explicitly-defined "stretch" criteria for determining eligibility for their preferred classes. Of these, 59% also allow an individual to receive a preferred classification as a result of a Business Decision.

Standard/Substandard Classification

- Two-thirds of respondents indicated that **Definition 2** (i.e., involving underwriter judgment) most closely matched their definition of Business Decisions with respect to standard/substandard classification.
- Sixty-three percent indicated they allow Business Decisions to be made on standard/substandard classifications.
- The most common reason for granting a Business Decision was to match or better a competitor's price or offer (58%).
- For those allowing Business Decisions, 61% limited the face amount and 50% limited the size of the rating on the case.
- Nearly two-thirds of those allowing Business Decisions take into consideration the impact of Business Decisions in setting their mortality assumptions.

- The number that actually track their Business Decision rate was 25%.
- For those with table shave programs (16), only two allow a Business Decision case to then be ‘shaved’ to standard. None would allow a preferred rating on a table-waived case.

Reinsurance

- Two-thirds of respondents indicated they discuss Business Decision practices with their reinsurers at quote time.
- The majority (61%) of treaties do not appear to address Business Decisions, although almost 25% indicated active negotiation on this point with reinsurers.
- Respondents have indicated their reinsurers have taken a variety of actions on cases involving Business Decisions. The most common was to give a warning that a future claim may not be paid.
- Respondents consulted with a reinsurer prior to granting some (58%) or all (31%) Business Decisions on automatically reinsured cases.
- If the reinsurer is not consulted on a Business Decision case, the most common action “usually” taken was to cede automatically to the pool at 44%. The most common action “sometimes” taken was to fully retain the risk at 48%. Over 70% of those who “sometimes” or “usually” cede a Business Decision case automatically to their reinsurance pool indicated that the pool members anticipated such action.

Process Related to Business Decisions

- Over 75% of respondents have a formal process to define who can make a Business Decision, but less than 40% have a formal process to track and monitor Business Decisions.
- The majority, at 84%, have a formal audit process to ensure guidelines relating to Business Decisions are followed.
- Sixty-seven percent of respondents “do not use” and 20% only “sometimes use” a financial model or projection as part of the process of making Business Decisions.
- One-third of respondents, who allowed Business Decisions, indicated their underwriters have the discretion to make Business Decisions within their approval authority. Fifty percent of respondents allow a case underwriter to waive routine requirements.
- In granting Business Decisions, 57% of respondents indicated the process involves referral to a more senior underwriter, 53% refer to the Chief Underwriter/VP Underwriting, 9% to actuarial, 4% to a Medical Director and 7% to a Committee. More than 50% refer to actuarial or a Medical director “some of the time.” The reasons for referral varied by type of referral, but included size and significance of the Business Decision and medical complexity.

Overall

A substantial number of additional comments were provided with this and the Reinsurer survey. Despite trying to define Business Decisions, it is clear by many of the comments, that there still was some confusion about what exactly a Business Decision is. It is extremely important that

each insurer have a definition that is clearly understood within the company and with all their reinsurers.

On this point, many comments were received that can be summarized as follows:

- (1) If a case is issued at the mortality rate deemed appropriate by the underwriter, it is NOT a Business Decision (even if it involved an exception which involved underwriting judgment, credits, etc); and
- (2) If a case is issued at a mortality rate that cannot be justified (excluding table waive programs) by the underwriter, then it IS a Business Decision.

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Report on Business Decision Survey

Sixty direct insurers responded to the Survey. Not all companies responded to all questions. In some instances, the percentages shown in a table do not add to 100%. This is due to rounding or because a particular question allowed respondents to select more than one response and not all did so.

1. The Survey asked respondents to indicate the definition that most closely matched their definition of a Business Decision.

Table 1 – Business Decision Definition

Definition for Business Decision		Preferred	Standard/Substandard
1.	A decision which results in a better offer to the customer than that obtained by <i>strictly</i> following the company’s underwriting guidelines (including any explicitly-defined “stretch” criteria for preferred classes).	58%	33%
2.	A decision which results in a better offer to the customer than that obtained by following the company’s underwriting guidelines (including any explicitly-defined “stretch” criteria for preferred classes) where those criteria allow for some underwriter judgment.	42%	67%
# of Respondents		52	46

The primary difference between the definitions above is that Definition 1 implies underwriting guidelines are strictly followed, whereas Definition 2 allows for some underwriter judgment. Of the 52 respondents, 30 (58%) indicated Definition 1 most closely matches their definition of Business Decisions when classifying preferred risks; the remaining 22 respondents (42%) indicated they define a Business Decision using Definition 2. With respect to the standard/substandard classes, more respondents indicated they follow Definition 2. Of the 46 respondents, 31 (67%) follow Definition 2 whereas only 15 (33%) follow Definition 1. Of the 30 respondents that follow Definition 1 for their preferred class (i.e., do not include underwriter judgment in their definition of a Business Decision), 15 did allow judgment when it came to the standard/substandard class (i.e., follow Definition 2).

Section A – Preferred Risk Classification

2. The Survey asked respondents to indicate whether or not an individual could qualify for a preferred class as a result of a Business Decision. If not, the Survey asked whether or not respondents monitored for compliance. If an individual could qualify for a preferred class through a Business Decision, the Survey asked for additional details with respect to any limitations on the Business Decisions allowed. The results are summarized in Tables A.1-A.3.

a. Do you allow an individual to qualify for a preferred class as a result of a Business Decision?

Table A.1 – Qualify for Preferred Class as a Result of a Business Decision

Qualify?	%
Yes	59%
No	41%
# of Respondents	58

b. If not, do you audit for compliance?

Table A.2 – Audit for Compliance

Audit?	%
Yes	87%
No	13%
# of Respondents	23

c. If an individual can qualify for a preferred class as a result of a Business Decision, can Business Decisions be made with respect to:

Table A.3 – Business Decisions Allowed On?

Allowed On	%
All preferred classes?	80%
All issue ages?	73%
All face amounts?	67%
All preferred classes other than the best preferred class?	20%
Other	13%
# of Respondents	30

“Other” comments included:

- *Consideration of agent and IMO that submitted the business;*
- *Business Decisions are made within in-house retention or taken outside the treaty (2);*
- *Cases 1 million up &/or age 76 up require Actuarial review prior to approval; and*
- *Case by case basis, must be reviewed by Chief Underwriter.*

Nearly 60% (34) of the 58 respondents indicated they allow an individual to qualify for a preferred class as a result of a Business Decision. Of the 30 that provided additional details, 80% allow Business Decisions to be made for all preferred classes, while 20% do not allow an individual to qualify for their best preferred class as a result of a Business Decision. More respondents have limitations as to issue age and face amount, but approximately 70% allow Business Decisions to be made to all face amounts and issue ages. Further examination of the individual responses revealed that one-third (10) did not limit Business Decisions by preferred class, issue age or face amount.

For those that do not allow an individual to qualify for a preferred class as a result of a Business Decision, all but 3 respondents (87%) monitor for compliance.

3. What are the most common reasons for your company to make a Business Decision with respect to preferred classes? (Respondents were asked to select the top two, but not all did.)

Table A.4 – Common Reasons for Making Business Decisions

Reason for Decision?	%
Match or beat another offer	58%
Match an illustrated/quoted rate	31%
Multiple policies are being purchased	28%
Match the class of an inforce policy with your company	25%
Match a trial or preliminary offer (e.g., one based on incomplete underwriting)	11%
Other	19%
# of Respondents	36

“Other” comments included:

- *Resolve an error in processing the application;*
- *The business decision is usually made when the condition is so minor that we do not expect additional mortality to result from it, and the additional premium being charged by a higher rate class doesn't justify the expected mortality. For example, a 33 year old female for \$100,000 who is three pounds over the Preferred build chart won't exhibit 25% higher mortality in relation to the 25% higher premium she would pay by being in the standard rate class;*
- *Based on the evidence if the classification makes sense, but does [not] fit strictly within the guidelines;*
- *Match or beat another company's price, regardless of "offer";*
- *Relationship with the agent and other coverage (P&C) in force;*
- *Existing multi-line customer, for example, have auto, homeowners, etc., with us; and*
- *Agent considerations (3).*

Of the 36 respondents, the most common reason for granting a Business Decision was to match or beat a competitor's price or offer (58%). The next most common reasons were to match an illustrated or quoted rate (31%), when multiple policies are being purchased (28%), or to match the class of an inforce policy within the company (25%). Two respondents provided reasons their organization grants a Business Decision even though they indicated they do not allow any Business Decisions on a preferred class.

4. Which preferred criteria do you most commonly make Business Decisions for? (Respondents were asked to select the top two.)

Please note: While most companies provided two answers, some provided one answer and two provided more than two answers.

Table A.5 – Most Common Preferred Criteria on which a Business Decision is Made

Criteria Business Decision Granted For?	%
Build	56%
Family history	39%
Total cholesterol	33%
Total cholesterol/HDL ratio	17%
Medical history	8%
Driving record	8%
Blood pressure	6%
Don't know	6%
Length of tobacco cessation	3%
Medications	3%
Aviation/avocations	3%
Drug and alcohol use	0%
Other	19%
# of Respondents	36

“Other” comments included:

- *Use of cigars and do not want the preferred nicotine underwriting class;*
- *Business decisions usually relate to resolving disputes or errors in processing;*
- *Never for tobacco usage of any kind, or cases involving tobacco usage;*
- *If an underwriter makes a "business decision" exception based on underwriting factors as described above and it is because she feels there is an offsetting risk classification reason, then I don't think that is a business decision, it is underwriting judgment. If the reason can't be supported by sound underwriting reasoning then that is an exception;*
- *We sell only group life and DI. None of these apply;*
- *Minimum HDL cholesterol required to get the best preferred class; and*
- *Financial Underwriting.*

Of the 36 respondents, Business Decisions were most commonly granted for build criteria (56%) followed by both family history and total cholesterol at 39% and 33%, respectively. Business Decisions were least likely to be granted for length of tobacco cessation, medications, aviation/avocations (all 3%) and drug and alcohol use (0%). Of the respondents providing the preferred criteria upon which they may grant a Business Decision, three previously indicated in the Survey that their organization did not allow Business Decisions on preferred.

5. Do you take into consideration the impact of Business Decisions in setting your mortality assumption for preferred classes?

Table A.6 – Consider the Impact of Business Decisions in Pricing Mortality

Consider Impact?	%
Yes	65%
No	35%
# of Respondents	37

Nearly two-thirds of the 37 respondents take into consideration the impact of Business Decisions in setting their preferred class mortality assumption. Of the 13 respondents that do not take the impact of Business Decisions into consideration when setting their preferred mortality assumption, 11 indicated they do allow an individual to qualify for a preferred class as the result of a Business Decision. Three of these 11 indicated they track the percentage of business on which a Business Decision is made and all were less than 2% (two were less than 1%). Interestingly, two respondents indicated they do take the impact into consideration even though they indicated they do not allow an individual to qualify for a preferred class as a result of a Business Decision.

6. The Survey asked respondents whether or not they track the percentage (number and/or volume) of Business Decisions made for preferred classes and if so, the respondent was asked to indicate the range of Business Decisions made, based on 2005 data. They were also asked whether they track certain aspects regarding the decision such as magnitude, issue age, face amount, agent or distribution partner, etc. The responses are summarized in Tables A.7-A.9 below.
 - a. Do you track the percentage (number and/or volume) of Business Decisions made for preferred classes?

Table A.7 – Track the Percentage (Number, Volume) of Business Decisions

Track Percentage?	%
Yes	36%
No	64%
# of Respondents	39

- b. If you answered Yes to question 6a, indicate the percentage of Business Decisions made among all preferred classes combined by both count and face amount.

Table A.8 – Percentage of Business Decisions Made for Preferred Classes

Percentage Made	# by Count	# by Volume
< 1%	6	2
1.0 – 1.9%	2	0
2.0 – 2.9%	2	1
3.0 – 3.9%	1	0
4.0 – 4.9%	1	0
5.0% +	0	0
# of Respondents	12	3

- c. If you answered Yes to question 6a, do you track any of the following?

Table A.9 – What Information is Tracked for Business Decisions

Information Tracked	#
Face amount of the Business Decision case?	6
Magnitude of the Business Decision?	5
Issue age of Business Decision made?	5
Agent or distribution partner involved in the case?	5
Other	5
# of Respondents	9

“Other” comments included:

- *Reason for the business decision (2);*
- *Data is tracked according to the preferred criteria leading to the exception;*
- *Placement rate; and*
- *Policy number.*

While 36% (14) of the 39 respondents track the percentage of Business Decisions made for the preferred class, most only track by count. Three respondents track by both count and volume. Of those that track their Business Decisions, 50% (6) of the respondents made decisions on less than 1% of the cases and over 80% of the respondents made decisions on less than 3% of the cases. No respondent indicated they made decisions on 5% or more of their policies, by count. By volume, two of the three respondents granted a Business Decision on less than 1% of their preferred risk face amount.

Nine respondents indicated they track various statistics regarding the Business Decisions granted. Most tracked more than one type of information.

7. The Survey asked whether or not respondents targeted or managed to a specific preferred Business Decision percentage and if so, to indicate the target, whether or not this information was provided to their reinsurers and whether or not the reinsurers request this information. The responses are summarized in Tables A.10-A.12 below.

a.

Table A.10 – Target a Percentage for Preferred Class Business Decisions

Manage to a Percentage?	%
Yes	40%
No	60%
# of Respondents	20

b.

Table A.11 - Target Business Decision Percentage for Preferred Classes

Target Percentage	By Count	By Amount
<1%	1	1
1-2%	3	0
3%	2	0
4%	2	1
# of Respondents	8	

c.

Table A.12 – Information for Reinsurers

	Do you provide this information to your reinsurers?	Do your reinsurers request this information?
Yes	7	6
No	1	2
# of Respondents	8	

Forty percent (8) of the 20 respondents indicated they target or manage to a specific preferred Business Decision percentage. Of the eight, all manage to a percentage of 4% or less, with half targeting 2% or fewer. Nearly all provide the preferred Business Decision target to their reinsurers and three-fourths indicated their reinsurers request this information.

8. In defining your preferred criteria, do you have explicitly-defined “stretch” criteria for determining eligibility?

Table A.13 – Explicitly Defined “Stretch” Criteria

Defined “Stretch” Criteria?	%
Yes	68%
No	32%
# of Respondents	57

Over two-thirds of the 57 respondents indicated they do have explicitly defined “stretch” criteria for determining eligibility for their preferred classes. Half of the 18 respondents indicating they do not have explicitly defined “stretch” criteria indicated in question 1 they allow underwriter judgment in their definition of a Business Decision (i.e., Definition 2). Of those that have “stretch” criteria, 59% (23) also indicated in question 2a that they allow an individual to receive a preferred classification as a result of a Business Decision.

9. The Survey asked respondents to provide additional comments relevant to making Business Decisions for preferred risk classifications. These are included in Appendix 3.

Section B – Standard/Substandard Classification

Survey instructions directed respondents to use the following definition of a Business Decision for the purposes of responding to questions in Section B:

- A decision that results in a better offer to the customer than that obtained by following the company’s underwriting guidelines.
- Do not consider formal table waive programs in your responses.

10. The Survey asked respondents whether or not they allowed Business Decisions to be made with respect to standard (non-preferred) or substandard classifications. If not, the Survey further asked whether or not respondents monitored for compliance. Responses to these questions are summarized in Tables B.1 and B.2.

- a. Do you allow Business Decisions to be made with respect to standard (non-preferred) or substandard classifications?

Table B.1 – Allow Business Decisions on Standard/Substandard Classes

Allow?	%
Yes	63%
No	37%
# of Respondents	60

b. If no, do you audit for compliance?

Table B.2 – Audit for Compliance

Audit?	%
Yes	80%
No	20%
# of Respondents	20

Among the 60 respondents, 63% (38) indicated they allowed Business Decisions to be made on standard (non-preferred) or substandard classifications. Responses to question 10a were compared to the responses for question 2a, which related to making Business Decisions on preferred classifications. Fifty-eight respondents answered both questions 2 and 10. Five percent (3) of the 58 respondents indicated they did not allow Business Decisions on standard or substandard classifications, but did allow them on preferred classifications. Also, 10% (6) of 58 respondents indicated the reverse, i.e., they allowed Business Decisions on standard/substandard classifications but not on preferred classifications. The rest, 85% (49), indicated they allowed Business Decisions on both preferred and standard/substandard.

As shown in Table B.2, among the 20 respondents who indicated they did *not* allow Business Decisions on standard or substandard classifications, 80% (16) conducted audits for compliance to their guidelines of no Business Decisions.

11. What are the common reasons for your company to make a Business Decision with respect to standard (non-preferred) or substandard classifications? (Respondents were asked to select the top two, but some only selected one.)

Table B.3 – Common Reasons for Making Business Decisions

Reasons	%
Match or better another company's offer	58%
Multiple policies are being purchased	28%
Match the class of an inforce policy with your company	25%
Match an illustrated/quoted rate	19%
Match a trial or preliminary offer (e.g., one based on incomplete underwriting)	17%
Other	28%
# of Respondents	36

“Other” comments included:

- *Applicant has other lines of insurance with our parent company;*
- *Resolve an error in processing the application;*
- *The business decision is usually made when the condition is so minor that we do not expect additional mortality to result from it, and the additional premium being charged by a higher rate class doesn't justify the expected mortality;*
- *We review all the evidence provided on a case to determine if an exception can be made;*
- *Match or beat another company's price, regardless of "offer";*
- *To be able to offer a rate (to keep on books) and if a huge amount of money is sent in;*

- *Personal knowledge of the Applicant by the Home Office or by the Agent;*
- *Complaint or pressure from the agent; and*
- *Agent consideration (2).*

Among the 36 respondents, the most common reason for granting a Business Decision was to match or better a competitor’s price or offer (58%). The next most common reasons were because multiple policies are being purchased (28%) or to match the class of an inforce policy with the company (25%).

12. Respondents who allowed Business Decisions on standard or substandard classifications were further asked whether they had any limitations on such Business Decisions. The Survey further asked those who did have limitations to indicate how they limited Business Decisions on standard or substandard classifications. (Note, two respondents who indicated in question 10 that they allowed Business Decisions did not respond to question 12.)

- a. Do you have any limitations on standard or substandard class Business Decisions?

Table B.4 – Limit Business Decisions

Limit?	%
Yes	50%
No	50%
# of Respondents	36

- b. If Yes, check all that apply.

Table B.5 – How Standard and Substandard Business Decisions are Limited

Limitations	%
Limit the face amount of the policy	61%
Cannot be applied above a certain rating (e.g., over Table 8)	50%
Rules based on number of tables and/or amount of flat extra than can be waived	44%
Limit the issue age	44%
Other	44%
# of Respondents	18

“Other” comments included:

- *The decision has to make financial sense - the cost is weighted against the gain;*
- *Business Decision pricing must meet profit objectives; reinsurance must be paid at true mortality rate;*
- *Special quoted by the pricing actuary who looks at profitability;*
- *Sign-off/Approval;*
- *Business Decisions are limited to our in-house retention;*
- *Decision must be made by chief underwriter and face amount within retention limit;*
- *Actuarial review required \$1 million & up and/or age 76 up; and*
- *Authority Guidelines allow for some judgment in substandard classification. True exceptions must be approved by someone with a higher Authority Level than that of the*

primary underwriter. Authority Levels are defined by face amount, table rating, and types of impairments.

Among the 36 respondents who allowed Business Decisions on standard or substandard classifications, half (18) had limitations on such decisions. Of those 18 who limited such Business Decisions, 61% (11) said they limit the face amount of the policy and half (9) indicated they didn't allow Business Decisions above a certain rating. Based on the "Other" comments, pricing or financial impact were also common considerations in limiting Business Decisions.

13. The Survey then asked respondents who made Business Decisions on standard (non-preferred) or substandard classes whether they took into account the impact of these decisions in setting their mortality assumptions. (Note, 13 of 38 respondents who had indicated in question 10 that they allowed Business Decisions did not respond to question 13. This was due to an incorrect instruction within the survey to skip question 13.)

Table B.6 – Account for Business Decisions in Mortality Assumptions

Account?	%
Yes	65%
No	35%
# of Respondents	23

Nearly two-thirds of the 23 respondents did take into consideration the impact of Business Decisions in setting their mortality assumptions for standard or substandard classes. This is the same result as for the preferred classification.

14. The Survey then asked respondents whether or not they track the percentage (number and/or volume) of Business Decisions made for standard (non-preferred) or substandard classes and, if so, to indicate the percentage of Business Decisions made based on 2005 data. Respondents who did track Business Decisions on standard/substandard classifications were also asked to indicate whether they kept various statistics regarding the Business Decisions granted. Responses to these questions are summarized in Tables B.7 through B.9.

Table B.7 – Track the Percentage (Number, Volume) of Business Decisions?

Track Percentage?	%
Yes	25%
No	75%
# of Respondents	36

Table B.8 – Percentage of Business Decisions Made on Standard/Substandard

% of Business Decisions Made	By Count	By Volume
Less than 1%	5	2
1.0 – 1.9%	2	1
2.0 – 2.9%	1	1
3% or more	0	0
# of Respondents	8	4

Table B.9 – Types of Statistics Tracked on Business Decisions

Do you track any of the following?	#
Agent or distribution partner involved in the case	6
Magnitude of the Business Decision (e.g. number of tables)	5
Issue age of Business Decision made	5
Face amount of the Business Decision case	5
Reason for the Business Decision	1
# of Respondents	6

As shown in Table B.7, nine of the 36 (25%) respondents indicated they did track Business Decisions made on standard/substandard classes, which is slightly less than the 36% who track Business Decisions for their preferred classes. Further, among the eight respondents who provided details (as shown in Table B.8), four track only by count, and four track by both count and volume. Five of the eight respondents grant Business Decisions on less than 1% of cases. No respondent indicated their percentage of Business Decisions exceeded 2.9% by either count or volume.

Six respondents further indicated they track various statistics regarding the Business Decisions granted. All six tracked more than one of the statistics shown in Table B.9 and all six tracked the agent or distribution partner involved. Five of the six track magnitude, issue age and face amount of the Business Decisions made.

15a. Do you have a formal table waive (shave) program?

Table B.10 – Formal Table Waive (Shave) Program?

Table Waive Program?	%
Yes	28%
No	72%
# of Respondents	58

15b. If you answered “Yes” to question 15a, can you apply a Business Decision and then table waive (e.g., the Business Decision moves the case to Table 2 and then the case is classified standard through a table waive)?

Table B.11 – Apply a Business Decision and Then Table Waive?

Apply Business Decision	%
Yes	13%
No	87%
# of Respondents	16

Among the 58 respondents, 28% (16) indicated they had a formal table shave program. Out of the 16 respondents with programs, 13% (2) indicated they would allow the combination of a Business Decision and a table waive to move a substandard case to standard.

15c. Through granting of a Business Decision, can a table-waived case get a preferred class rate?

Table B.12 – Can a Table-Waived Case Get Preferred?

Table Shave to Preferred?	%
Yes	0%
No	100%
# of Respondents	6

Of the six respondents to this question, none would offer a preferred rating to a table waived case.

16. The Survey asked respondents to provide additional comments relevant to making Business Decisions for standard/substandard risks, which are included in Appendix 3.

Section C – Other Exceptions

17. In situations where a requirement (e.g., a treadmill) is waived, do you consider it an exception?

Table C.1 – Waiving Requirements Considered an Exception?

Consider?	%
Yes	90%
No	10%
# of Respondents	58

Nearly all (90%) of the 58 respondents consider the waiving of a requirement an exception. Several respondents provided additional comments, which are summarized as follows:

Additional Comments:

- *Not considered an exception if equivalent medical information is available (6);*
- *Only with reinsurer approval (2);*
- *Consider this to be underwriter judgment (2);*
- *Must be well documented (2);*
- *This would happen only if there was an error in communication from the underwriter, the examiner blew it AND the risk was small (younger person, low face amount), and the medical requirement would create a serious customer service problem. Examples: Blood requirement would not be waived. However, on a younger person and low face amount, MD med, might be waived if paramed exam is wnl and APS / med hx is wnl;*
- *Waiving a requirement would usually be a judgment based on circumstances other than customer or agent objection;*
- *These are considered exceptions only because reinsurers consider them exceptions;*
- *We are currently using our parent company's reinsurers - not sure about the treaties; and*

- *Yes, anytime we decide to waive or replace a routine requirement is considered an exception. We document our file accordingly. We consider this within the underwriter judgment realm.*

Section D – Reinsurance

18. Do you discuss Business Decisions with the reinsurer at quote time?

Table D.1 - Discuss with Reinsurer at Quote Time

Discuss?	%
Yes	67%
No	33%
# of Respondents	57

Among the 57 respondents, 67% (38) indicated they did discuss this topic with their reinsurer at quote time.

19. Do your most recent reinsurance treaties (either signed or intended to be signed) specifically address Business Decisions?

Table D.2 – Treaties Address Business Decisions

Address?	%
Yes	16%
No	61%
Still negotiating with reinsurer	23%
# of Respondents	57

Among the 57 respondents, 61% (35) indicated their recent treaties did *not* address Business Decisions and 23% (13) were still negotiating treaty language with a reinsurer.

Of the 38 respondents who indicated in question 18 that they discussed Business Decisions with reinsurers at quote time, 21% (8) had reinsurance treaties addressing Business Decisions, 53% (20) did not, 24% (9) were still negotiating treaty language, and one did not respond. In contrast, among the 19 respondents who indicated in question 18 that they did *not* discuss Business Decisions with reinsurers at quote time, 5% (1) had reinsurance treaties addressing Business Decisions, 74% (14) did not, 16% (3) were still negotiating treaty language with the reinsurer, and one did not respond.

20. In the past 24 months, have any of your reinsurers taken any of the following actions on cases where a Business Decision was made?

Table D.3 – Actions Taken by Reinsurers on Business Decision Cases

Reinsurer Actions	%
Given a warning that a future claim may not be paid	65%
Forced you to recapture the reinsurance on a case	35%
Declined to pay a claim or limited the amount paid	29%
Reduced the amount reinsured or increased the price	24%
# of Respondents	17

Among the 17 respondents, nearly two-thirds (11) indicated a reinsurer had warned them a future claim may not be paid. Besides a warning, several types of actions were taken by the reinsurers – 35% were forced to recapture a case, 29% had a claim denied or the amount paid reduced, and 24% had the amount reinsured reduced or their price increased. Six respondents had experienced more than one of the actions listed.

Survey questions 21 through 29 were intended to be completed only by those respondents who allowed Business Decisions on either preferred or standard/substandard classifications. However, six respondents provided answers to all or part of questions 21 through 29, even though they had indicated previously they did not allow Business Decisions. The responses provided by these six are included in the analysis of questions 21-29. (Note, reading between the lines, some of the survey comments made by these respondents implied they do not routinely allow Business Decisions, but do have a process to elevate some requests to senior authority levels, which may result in a rare Business Decision being made. One respondent indicated they no longer made Business Decisions, but gave their past practice answers.)

21. Prior to granting a Business Decision on a case that otherwise would be reinsured automatically absent the Business Decision, do you discuss the case with one or more reinsurers?

Table D.4 – Discuss with a Reinsurer Prior to Granting Business Decisions

Discuss?	%
Sometimes	58%
Always	31%
Never	11%
# of Respondents	45

Respondents commonly consulted with a reinsurer prior to granting Business Decisions on automatically reinsured cases with 58% (26) of the 45 respondents indicating they sometimes discuss and 31% (14) indicating they always discuss potential Business Decision cases with a reinsurer ahead of time.

22a. If a reinsurer is not consulted and a Business Decision is made to a case that otherwise would be reinsured automatically absent the Business Decision, which of the following actions would you take? Respondents were further asked to select the *one* action which they usually took.

Table D.5 – Actions Taken if Don’t Consult with Reinsurer on Business Decision

Actions	Sometimes Take this Action	Usually take this Action
Fully retain the case	48%	24%
Pay the reinsurer the true assessed rate for the case	40%	24%
Cede automatically to the pool	28%	44%
# of Respondents	25	

There were 36 respondents to this question. However, among these were 11 who had indicated in question 21 they *always* consult with a reinsurer before making Business Decisions on automatically ceded cases. Table D.5 excludes those 11 responses.

Among the remaining 25 respondents, the most common usual action was to automatically cede the Business Decision case to the reinsurance pool without prior consultation, with 44% (11) usually taking this action. The two other actions - fully retain the case or pay the reinsurer the true assessed rate - were each selected as usual actions by 24% (6) of the respondents. (Note, three of the 25 respondents did not select an action they *usually* took and one respondent indicated they usually took two of the actions. This is why the percentages in the rightmost column of Table D.5 do not add to 100%.)

Nearly half (12) of the 25 respondents said they sometimes fully retain cases where they did not consult with a reinsurer. Forty percent (10) responded they sometimes pay the true rate and 28% (7) sometimes automatically ceded the Business Decision case to the reinsurance pool without prior consultation.

As mentioned above, there were 11 who responded to question 22 who in question 21 they had said they always consulted with a reinsurer before making Business Decisions on automatically ceded business. Even though their responses to questions 21 and 22 seemed to conflict, it’s interesting to contrast some of their responses with those shown in Table D.5. Eight (73%) of these 11 indicated they usually would fully retain any case they had made Business Decisions on without consulting previously with a reinsurer. This compares with the 24% who usually fully retained a case among the 25 respondents who did *not* always consult with reinsurers prior to making Business Decisions on automatically reinsured cases. None of the 11 indicated they usually automatically cede the case to the reinsurance pool without consulting ahead of time with a reinsurer. This compares with the 44% who usually would automatically cede a case the pool without prior consultation.

22b. The Survey further asked those who sometimes or usually ceded Business Decisions automatically to reinsurance pools whether pool members anticipated such actions.

Table D.6 – Pool Members Anticipate Ceding Business Decision Cases

Anticipate?	Percent
Yes	71%
No	23%
No Response	6%
# of Respondents	17

Again, respondents who had indicated in question 21 they always consult with a reinsurer prior to making Business Decisions on automatically ceded cases were excluded from Table D.6. Among the remaining 17 respondents who sometimes and/or usually automatically ceded Business Decision cases to reinsurance pools without prior consultation with a reinsurer, 71% (12) indicated the pool members anticipated such an action, 23% (4) said pool members did not anticipate this action, and one didn't respond.

Nine of the 17 respondents to question 22b provided additional comments related to automatically ceding Business Decisions to pools, which are shown below:

- *Reinsurance underwriters are generally aware of market practices, hence, implicitly endorse such practices unless specifically prohibited in the treaty;*
- *Our business decision activity is so low that this is insignificant to the pool;*
- *We keep the reinsurers apprised of our underwriting guidelines and their audits across the board are very favorable. Our company was not involved in the wide swings of underwriting irrationality that has caused the reinsurance backlash, because our approach has always been very reasonable within the guidelines for exceptions noted above;*
- *If we are putting a case into a reinsurance pool, we are assuming the mortality is consistent with the pricing even if an exception was made. We would not knowingly put an underpriced risk in the pool;*
- *Our definition of Business Decisions as used in this survey is limited to underwriter judgment. Our reinsurance pools allow underwriter judgment. Decision must be made by chief underwriter and face amount within retention limit;*
- *These answers are what happened in the past....we now do not make business decisions;*
- *The "exceptions" are ceded under automatic reinsurance. Sometimes we discuss these with reinsurers prior to the decision. The "business decisions" are fully retained;*
- *Different lines are reinsured differently. These are different answers for each line, but we have never had a problem with the reinsurers; and*
- *No more than 2% exceptions.*

23. The Survey asked for additional comments relevant to making Business Decisions on reinsured business. Eleven respondents provided additional comments, which are shown below. Five of the 11 comments related to the direct writer's typical practice of consulting with a reinsurer on Business Decision cases prior to automatically ceding such cases. Three comments provided details on the direct writer's actions when Business Decision cases were not ceded, for example, choosing to fully retain, pay the true assessed rate to the reinsurer, issuing the case at the rate the reinsurer will accept, or not making the Business Decision at all.

Additional Comments:

- *We treat our reinsurers as business partners, and treat them as we would want to be treated;*
- *Business decisions are examples of pure business judgment. In today's life insurance environment there is a wide range of judgment in underwriting;*
- *An **On the Risk** article by Ken Griffin at Nationwide Insurance several years ago was excellent on this topic. In summary, very minor business decisions will affect underwriting expenses and not taken much greater than any adverse mortality expectation. When large business decisions are made, the expense money saved is miniscule to the early and severe mortality that will result;*
- *If we've talked through a case with reinsurers but not formally submitted it facultatively and they have suggested a higher class than what we think, we will either retain all the risk or submit automatically with rate reinsurer is advising;*
- *We always get approval before making the business decision or it is not made;*
- *We don't use automatic reinsurance if a business decision/exception is made;*
- *We are very careful about keeping business decisions within internal retention limits, and consult with reinsurers if an exception is being considered. Reinsurers are asking for verbiage in the treaty to address business decisions, but are struggling to define a business decision. On audit, reinsurers seem concerned about a one- table reduction, but when asked over the phone to define a business exception for treaty purposes, I've been told by the same reinsurers that four tables would define a business exception that would cause concern;*
- *Our practice is to involve the reinsurer in the beginning on a case by case basis. If it truly is a business decision, the number of cases should be very small, therefore individual involvement is minimal;*
- *Although business decisions are not addressed in the reinsurance treaty, our primary reinsurer recently told us in writing that automatic reinsurance is not available on cases where we don't adhere to this reinsurer's guidelines on Foreign Travel;*
- *We start with the auto reinsurers. If they prefer not to help with an exception we consider exceptions within retention or issuing at the exception rate, but paying the reinsurers the true assessment rate. Actuarial analysis is done regarding the cost of the exception, and executives from insurance operations, underwriting, marketing and actuarial are involved in the decision making; and*
- *Our policy is to never make business decisions on reinsured cases. Approval would have to be granted by the reinsurers in the pool.*

Section E – Process Related to Business Decisions

This section of the survey questioned who was involved in the making of a Business Decision, whether it varied by different factors, if the financial impact was considered and if Business Decisions were tracked. The respondents were also questioned regarding the waiving of age and amount requirements.

24a. Do you have a formal process to define who can make a Business Decision?

Table E.1 – Defined Who Can Make a Business Decision

Defined	%
Yes	76%
No	24%
# of Respondents	45

24b. Do you have a formal process to track and monitor Business Decisions?

Table E.2 – Track Business Decisions

Track	%
Yes	38%
No	62%
# of Respondents	45

24c. Do you have a formal process to audit that guidelines are followed?

Table E.3 – Formal Audit Process

Formal Process	%
Yes	84%
No	16%
# of Respondents	43

Among the 45 respondents to questions 24a and 24b, slightly more than three-quarters (34) indicated they had formally defined who could make a Business Decision while 38% (17) have a formal process to track and monitor Business Decisions. Of the 43 respondents to question 24c, 84% (36) have a formal process to audit that guidelines are followed. Of these 36 respondents, 28 also have a formal process to define who can make a Business Decision.

Responses to question 24b, which asked if respondents had a formal process to track Business Decisions, were compared to responses to question 6a, which asked if respondents tracked Business Decisions for preferred classes, and responses to question 14a, which asked if respondents tracked Business Decisions for standard/substandard cases. Not all companies answered all three questions. In fact, the answers to questions 6a and 14a for some companies were inconsistent with their answer to question 24b. More companies answered question 24b (45) than 6a (39) or 14a (36). More respondents track Business Decisions on preferred cases, 36% (14) as compared with 25% (9) of respondents that track Business Decisions made for

standard or substandard cases. Thirty-eight percent (17) of the 45 respondents indicated they had a formal process to track and monitor Business Decisions. However, only seven of the 17 respondents that had a formal process to track and monitor Business Decisions indicated they tracked Business Decisions for both preferred and standard/substandard risks.

25. Is a financial model or projection used as part of the process of making Business Decisions?

Table E.4 – Financial Model Part of the Process

Financial Model	%
Yes	13%
No	67%
Sometimes	20%
# of Respondents	45

Among the 45 respondents, 13% (6) indicated they did use and 20% (9) indicated they sometimes use a financial model or projection as part of the process of making Business Decisions, while 67% (30) do not use a financial model or projection.

The Survey asked respondents that sometimes used a financial model or projection to provide additional detail.

Details Regarding “Sometimes”:

- *Don’t really know. This should be a choice besides yes, no and sometimes;*
- *Sometimes consult with actuarial;*
- *Depends on importance of decision, a present value calculation is performed;*
- *This decision is made on a case by case basis based on the client’s age, face amount, product and difference in risk classes;*
- *Sometimes our corporate underwriting VP reviews the case and considers the financial impact of the decision;*
- *We will not write unprofitable business. That is the guideline;*
- *Cases \$1 million+ or ages 76+;*
- *We would look at the total assets the client has on a whole within our organization; and*
- *We analyze and calculate the cost of the exception.*

26. Can a case underwriter make a Business Decision within their authority level?

Table E.5 – Make Business Decisions within Authority Level

Make Business Decisions	%
Yes	33%
No	67%
# of Respondents	40

There were 45 respondents to this question, but only 40 had previously indicated they allowed Business Decisions. Table E.5 reflects only the answers of these 40. Among the 40 respondents who indicated earlier in the survey that they allowed Business Decisions, one-third indicated their underwriters have the discretion to make Business Decisions, while two-thirds do not.

27. Can a case underwriter waive routine requirements (e.g., treadmill) within their authority level?

Table E.6 – Waive Routine Requirements

Waive Requirements	%
Yes	50%
No	50%
# of Respondents	44

The 44 respondents were evenly split with one-half allowing underwriters to waive routine requirements while the other one-half prohibited such action. Eleven of the 27 respondents who indicated their case underwriters could not make a Business Decision within their authority level did allow their case underwriters to waive routine requirements. Among the 13 respondents who indicated their case underwriters could make Business Decisions, three would not allow them to waive routine requirements.

28a. In granting Business Decisions does the process involve referral to a more senior underwriter?

Table E.7 – Referral to a More Senior Underwriter

Referral	%
Yes	57%
No	25%
Sometimes	18%
# of Respondents	44

More than one-half (26) of the 44 respondents required Business Decisions to be referred to a senior underwriter while one-quarter (11) of the companies did not. Eight (18%) respondents sometimes refer Business Decisions to a more senior underwriter.

The Survey asked respondents who sometimes refer Business Decisions to a more senior underwriter to provide additional detail. The most common reason for such referrals was the size or significance of the Business Decision.

Details Regarding “Sometimes”:

- *Depends on the facts of the individual case and the significance of the decision being made;*
- *We seldom make business decision – if we do it is usually only for one table difference;*
- *Depends on how substantial the potential change is – if it is really just the underwriter using her judgment, then is it really an exception? Probably not, so it doesn’t have to be reviewed;*
- *A larger account may require approval from a more senior underwriter;*
- *If an UW wants to make a business decision within their authority limit they usually discuss it with myself (Chief UW) or a senior UW if I am not available;*

- *Depending on the specifics, a case may be referred to a more senior to consult on underwriter judgment;*
- *If outside of their handling and/or approval limit; and*
- *All true business decisions are made by the Chief Underwriter.*

28b. In granting Business Decisions, does the process involve referral to the Chief Underwriter/VP of Underwriting?

Table E.8 – Referral to Chief/VP Underwriting

Referral	%
Yes	53%
No	4%
Sometimes	42%
# of Respondents	45

Among the 45 respondents, 53% (24) indicated Business Decisions were routinely referred to the Chief Underwriter/VP Underwriting, while an additional 42% (19) indicated that sometimes Business Decisions are referred to the Chief Underwriter/VP Underwriting. Only 4% of respondents (2) did not routinely refer Business Decisions to the Chief Underwriter/VP Underwriting.

The Survey asked respondents who sometimes refer Business Decisions to the Chief Underwriter/VP Underwriting to provide additional detail. The two most common explanations provided indicate that in some companies all Business Decisions are referred to either the next higher level of authority or the Chief Underwriter and referrals to Chief Underwriter were dependent on the size and significance of the case and/or Business Decision.

Details Regarding “Sometimes”:

- *If the underwriter is not comfortable making the decision or if the agents gets someone above the underwriter involved;*
- *Exception referral is to the next higher level which may or may not be Chief Underwriter;*
- *Depends on the facts of the individual case and the significance of the decision being made;*
- *Business decisions are usually discussed with chief underwriter or manager;*
- *It depends on how clear-cut the original guidelines and how “big” an “exception” is being asked for;*
- *The requirement for a referral depends on the size of the account;*
- *Refer to myself for a business decision – if I am away then the most senior UW would be consulted;*
- *Again, depending on the specifics of the case it may be referred to the Chief Underwriter for review & consultation on underwriter judgment;*
- *Depends on the magnitude;*
- *If outside of their handling and/or approval limits;*
- *Referred to Chief Underwriter/Vice President depending on size of the case;*
- *Not all cases have to go to the Chief UW;*

- *Depends on the significance of the Business Decision (e.g., the difference in the number of tables and the size of the case);*
- *If available – The Underwriting Consultants will review if he is not available; and*
- *Always refer if the chief underwriter is the next higher authority level. All reinsured business is referred to the home office. Otherwise, referrals may optionally be made to the chief underwriter or medical director.*

The answers to Question 28b are consistent with the responses to Question 28a, which suggests that when Business Decisions are referred to a more senior underwriter, they are usually referred directly to the Chief Underwriter/VP Underwriting.

28c. In granting Business Decisions does the process involve actuarial?

Table E.9 – Actuarial Involvement

Involvement	%
Yes	9%
No	40%
Sometimes	51%
# of Respondents	43

Of the 43 respondents, 40% (17) indicated they did not involve actuaries when making Business Decisions while 9% (four) indicated that they did and 51% (22) sometimes involve their actuaries.

The Survey asked the respondents that sometimes refer Business Decisions to actuaries to provide additional detail. The most common reasons to refer to actuarial was to determine the financial impact of the Business Decision and for larger cases/accounts.

Details Regarding “Sometimes”:

- *To determine financial impact (5);*
- *Depending on product and nature of the decision, the pricing actuary may become involved;*
- *We would contact actuarial if there is going to be a reduction in commission or to determine the amount of premium the reinsurer should receive based on true assessed rate;*
- *The largest accounts require actuarial approval as well as underwriting approval;*
- *Most of the time it does not as the business decision rates are so low and the face amounts are usually low;*
- *They have provided us with tools to assess the cost, but we make the decision;*
- *Only in a very large cases or “group” cases with a large number of policies;*
- *Case dependent;*
- *Depends on the significance of the Business Decision, whether there is a drop-in and what product is being sold;*
- *Depends on the questions being asked; and*
- *Age and face amount restrictions – as above.*

28d. In granting Business Decisions, does the process involve referral to medical director?

Table E.10 – Referral to Medical Director

Referral	%
Yes	4%
No	36%
Sometimes	60%
# of Respondents	45

Of the 45 respondents, 4% indicated they did involve medical directors when making a Business Decision, while 36% (16) indicated they did not; however, 60% (27) of respondents will sometimes refer Business Decisions to the medical director.

The Survey asked respondents who sometimes refer Business Decisions to the medical director to provided additional detail. The most common reason for referring a Business Decision to the medical director was if the Business Decision was related to a medical condition.

Details Regarding “Sometimes”:

- *If medical in nature (4);*
- *Only if the underwriter needs assistance in making the decision;*
- *Only if it is a medical issue of significance;*
- *Sr underwriter/ Chief UW discretion;*
- *Depends on the medical impairment to determine if we can make a medical exception;*
- *Will seek input;*
- *Based on the medical aspects/history cases are referred to Medical for review & recommendation;*
- *Depends on the nature of their previous involvement in the case;*
- *For a professional opinion on the severity of the impairment;*
- *When medical consultation needed;*
- *Depends on the complexity and details of the medical history;*
- *Always refer if the chief underwriter is the next higher authority level. All reinsured business is referred to the home office. Otherwise, referrals may optionally be made to the chief underwriter or medical director;*
- *In the absence of the Chief Underwriter; and*
- *Still requires Chief UW/Underwriting officer approval in addition to Medical Director input.*

28e. In granting Business Decisions, does the process involve referral to a Committee?

Table E.11 - Referral to a Committee

Referral	%
Yes	7%
No	71%
Sometimes	22%
# of Respondents	45

Among the 45 respondents, 71% (32) indicated a Committee was not used to review Business Decisions, while 7% (3) did and 22% (10) sometimes use a Committee to review Business Decisions.

The Survey asked respondents who sometimes refer cases to a Committee to provide additional detail.

Details Regarding “Sometimes”:

- *A Committee of the Chief Underwriter and the VP of underwriting;*
- *Unusual cases;*
- *Larger accounts are discussed by an underwriting committee;*
- *Usually the UW and myself or the UW and the MD or senior UW makes the decision to allow for a bus decision;*
- *We meet as a group on more significant cases; and*
- *Only in rare circumstances.*

Summary of Referral Process

Table E.12 – Summary of Referral Process

Referral	Senior Underwriter	Chief/VP Underwriting	Actuarial	Medical Director	Committee
Yes	57%	53%	9%	4%	7%
No	25%	4%	40%	36%	71%
Sometimes	18%	42%	51%	60%	22%
# of Respondents	44	45	43	45	45

Over half of the respondents refer Business Decisions to a more senior underwriter or to the Chief Underwriter/VP Underwriting. Nine percent of respondents indicated they referred Business Decisions to Actuarial, while another 51% sometimes referred cases to Actuarial. Four percent of respondents indicated they referred Business Decisions to the Medical Director and another 60% sometimes referred cases to the Medical Director.

29. Indicate whether the process of making Business Decisions varies by any of the following factors:

Table E.13 – Factors Affecting Business Decisions

Factors	%
Magnitude of exception (e.g., number of tables reduced)	20%
Face Amount of the Case	18%
Premium on the Case	13%
Issue age	13%
Product	12%
Producer	12%
Distribution Channel	5%
Whether Reinsured	3%
Other	4%
# of Respondents	31

The magnitude of the exception and the face amount of the case were the most significant factors reported to affect the making of a Business Decision, followed by the premium, issue age, product and producer.

“Other” comments included:

- *It usually involves an issue of handling that needs to be resolved in favor of customer;*
- *Age of the applicant and reason for business decision;*
- *Other business that client has with us (Commercial Health, P&C, etc);*
- *Cost of the decision;*
- *We do not allow more than 2 table reduction in our business decisions; and*
- *When there is a political issue.*

30. The Survey asked respondents to provide additional comments relevant to making Business Exceptions. Ten respondents provided additional comments, which are included in Appendix 3.

Appendix 1

List of Contributing Companies

ALFA Life Corp.
Allianz Life
American Family Life Insurance Co
American Fidelity Assurance Company
American National
Americo Life and Annuity
Amica Life Insurance Company
Anthem Life Insurance Company
Aviva Life Insurance Company
Banner Life Insurance Co.
Beneficial Financial Group
Berkshire Life Insurance Co.
Chase Insurance
Citizens Security Life Insurance Company
Cotton States
Country Life
CUNA Mutual Life Ins. Co
Fairmont Specialty Group
Family Life Insurance Company
Farmers and Traders Life
Farmers New World
Federated Life Insurance Company
Foresters
Genworth Financial
Gerber Life Insurance
GPM Life Insurance Co
Grange Life Insurance Company
Hartford Life
Horace Mann
ING US Financial Services
Jackson National Life
Kansas City Life
Knights of Columbus
Liberty Life Assurance Company of Boston
Manulife Financial
Minnesota Life
Motorists Life Insurance
National Mutual Benefit
Ohio National Life Insurance Company
OneAmerica Financial Partners
Pacific Life Insurance Company
Penn Mutual Life Insurance Co.

Phoenix Life
Physicians Mutual/Physicians Life Insurance Company
Principal Life Insurance Company
Protective Life Companies
Protective Life Companies c/o Empire General Life
Prudential Financial
Regence Life and Health Insurance Company
Royal Neighbors of America
Sammons Financial Group
Shenandoah Life Insurance Co.
State Farm Life Insurance Co. and State Farm Life & Accident Assurance Co.
Sun Life Assurance Company of Canada (U.S.)
Symetra
TIAA-CREF Life Insurance Company
USAA Life Insurance Co./USAA Life Ins. Co. of NY
VantisLife Insurance Company
Western & Southern Financial Group
Woodmen of the World Life Insurance Society

Appendix 2

Comparisons with the Reinsurance Company Survey

The following provides some of the issues, practices and perceptions with respect to Business Decisions deduced from comparing the Reinsurance and Direct Surveys. The percentages used in this Appendix are based on number of respondents answering the relevant questions in the respective surveys.

Regardless of risk classification, respondents to the Direct Company Survey were more likely to choose the more restrictive definition for a Business Decision of not allowing underwriter judgment, **Definition 1**. **Definition 1** was chosen for the preferred classes by 58% of the direct company respondents versus 43% of the reinsurers. However, with respect to standard/substandard classes, a third of the direct company respondents selected **Definition 1**, while none of the reinsurers did.

It should be noted that nearly one-third of the direct company respondents do not have explicitly defined “stretch” criteria so they may have chosen **Definition 2** but in fact be underwriting similarly to a company with extensive “stretch” criteria (or detailed debit & credit processes). Some comments in both surveys point to underwriting decisions which do not affect mortality (or profitability) NOT being considered Business Decisions.

Practices with respect to allowing, monitoring, the acceptable percentage, pricing and reinsurance practices with respect to Business Decisions were quite varied and most questions were only answered by subsets of the total respondents.

- Fifty-nine percent of the direct companies indicated they allow an individual to qualify for a preferred class as a result of a Business Decision (63% allowed for standard/substandard classes). Forty-five percent of the reinsurers indicated they allow Business Decisions on their assumed business with respect to preferred (73% for standard/substandard).
- On the subject of compliance, 87% of direct companies that do not allow Business Decisions for preferred (80% for standard/substandard) audit for compliance. For those that allow Business Decisions, 36% track their percentage of Business Decisions for preferred classification and 25% for standard/substandard classification. However, 50% of reinsurers require periodic documentation from their clients.
- When asked to quantify their actual Business Decision rate for 2005, over half the direct writers reported less than 1%, 83% reported less than 3% and none reported more than 5%. The reinsurers reported, based on 2005 audits, the percentage of Business Decisions was slightly higher with 45% indicating they were less than 3% and 91% indicating they were less than 5%. The figures reported by the direct writers seem in line with the reinsurers’ perception that the percentage of Business Decisions in their business is less than or equal to 5%.

There appears to be a disconnect between the reinsurers and direct company practices with respect to the handling of Business Decisions in treaties, the actions taken on cases on which a Business Decision has been granted, and whether cases with Business Decisions can be ceded automatically to the pool.

- Fifty-seven percent of the reinsurers indicated they insist the treatment of Business Decisions be built into their treaties, while 16% of the direct writers indicated it was included in their treaties (another 23% indicated they were in negotiation with their reinsurers).
- While both the direct writers and reinsurers indicated adverse actions had been taken by the reinsurers on a case on which a Business Decision was made, the frequency of the actions taken between the two Surveys did not align. Thirty percent of direct writers reported adverse actions by a reinsurer, which seems high compared to the incidence inferred from the Reinsurer Survey. In the Direct Survey, the most common action taken by a reinsurer (as indicated by 65% of the respondents) was to give a warning that a future claim may not be paid. Whereas in the Reinsurance Survey, the most common action taken, as indicated by 70% of the reinsurers, was to decline to pay a claim or reduce the amount paid. This was the third most common response in the Direct Survey indicated by 29% of the respondents.
- One-third of the reinsurers allow direct companies to cede Business Decisions automatically at automatic rates if they have priced for it. In contrast, two-thirds of the reinsurers indicated they would only accept business ceded automatically to their pools on cases with Business Decisions if they were paid the true assessed rate or if discussed beforehand with the ceding company. Only 24% of the respondents indicated they usually pay the true assessed rate on their business ceded automatically. In addition, nearly one-third of the direct company respondents indicated they always discuss a case with a reinsurer prior to granting a Business Decision while 11% indicated they never did. Of the direct company respondents that did not consult with a reinsurer, 44% indicated they usually cede automatically to the pool without paying the true assessed rate.

Note: Given so few (4 out of 12) reinsurers allow themselves to be bound automatically on Business Decision cases, but a greater percentage (11 out of 25) direct companies indicated they usually cede automatically to their pool without discussing the case beforehand or paying the true assessed rate, one has to wonder if there is not a disconnect in the understanding of the parties.

Appendix 3 Additional Comments

Comments Regarding Business Decision Practices for Preferred:

- *Our official posture is that we do not make exceptions on Preferred criteria. What may appear like an exception is usually an expanded decision allowing for more complete information about the factor in question;*
- *We seldom make business decisions for preferred risks classifications. We will discuss with our parent company or reinsurers prior to making business decision;*
- *Stretch criteria are a point trade off system that is very limited and modest. It was developed with our reinsurance company's agreement, up front. It cannot be used on any borderline cases;*
- *We stick to our "stretch criteria" unless it is within our retention or the applicant is a proven center of influence for our company;*
- *We have defined "build" stretch criteria;*
- *When making a decision to issue at our Preferred classes, we will allow it if misses build by 1 or 2 lbs or when total cholesterol is slightly over by 1 or 2 mg/dl. We are very strict about trying to adhere to our Preferred Criteria Guidelines;*
- *We incorporate all the items in 6c into our decision. We do some tracking to gauge frequency;*
- *Stretch Guidelines limited to total cholesterol (example: 220 vs. 200 for best class). Will consult reinsurer for any other risk outside guidelines if appears otherwise to be a good risk;*
- *If all our preferred criteria are met except for build, we will allow the individual to be 10 lbs over our guideline and offer preferred. We do not squeeze super preferred;*
- *For question 2b: we audit for compliance to all underwriting rules, but there is no specific audit which looks for Business Decisions. For question 8: we use an accepted and well documented program used for preferred underwriting as well as for standard and rated business; and*
- *Decisions are made by still reviewing the overall medical history of the applicant versus outright giving preferred without consideration for the history.*

Comments Regarding Business Decision Practices for Standard/Substandard Risks:

- *Our company just started offering cases rated above Table B in 2005 and since our marketplace is very specific, there was little need to make these types of decisions in the past;*
- *Table Shave program is only two niche markets (Fed business and teachers);*
- *Our Group business is accept or reject through table C;*
- *We rarely make them. Substandard risks represent significant extra mortality consequences via early mortality and life settlement activity that is far greater than several pounds of build in the preferred vs. standard rate class bracket. Also, the synergistic effect of impairments is greater in the special class category, and we believe we must maintain that pricing integrity, even if we lose the case to a competitor;*
- *The underwriter uses her best judgment to determine standard or substandard class--if she can support the decision on sound underwriting judgment then that is the correct class, there is no "business exception". However, if the class should clearly be "x" and the case is accepted at a better rate--due to marketing or other pressures, then that is a business exception. We rarely do this and if we do, we make our HO marketer authorize the exception if the pressure is coming from that area of the company;*
- *A borderline case could be rated in the lower table (borderline Table B/C might go Table B);*
- *We incorporate all the items [including magnitude of the decision, issue age, face amount, and agent or distribution partner involved.] We do some tracking to gauge frequency;*
- *We have a Life Risks Factor program that requires current BP, pulse, total cholesterol and ratio as well as family history, so based on age/amount criteria only cases in which at least a paramed exam, blood and urine qualify;*
- *Business decisions are made by the Chief Underwriter only;*
- *We use a standardized and reinsurer approved program to identify better risks. It is not a table shave program; and*
- *Our marketplace consists of high end educators and therefore, we have very little substandard business. In the past, business exceptions were not necessary with such a specific marketplace.*

General Comments Regarding Business Decision Practices:

- *In my mind business decisions are defined as decisions that you expect to result in lesser ROE than if priced at the appropriate rate class. Our company does not [allow] business decisions based on my definition;*
- *We make very few, and they are within our retention only. We don't do them on reinsured business;*
- *We don't have formal guidelines for when exceptions may be made other than it's stated that exceptions should be rare. We don't formally track the number of exceptions, but periodically have done studies to estimate the number and types of cases where exceptions were made;*
- *We also track all death claims within 5 years of application, reinstatement, conversion date and monitor all underwriting criteria. We use this, as well as reinsurance audits and training, to arrive at best rate class decisions. Historically, we are in the less than 2% category for business decision activity, without going through a special tedious tracking exercise;*
- *We have a clearly articulated structure for stretching to higher discount categories ... these are filed with the reinsurance company and are part of the quote process;*
- *[In my mind,] business decision is not described here--both scenarios seem to me to be judgment related. A true business decision to me is when an outside force is pressuring a deviation from sound underwriting principles such as your choices in # 3. If an underwriter makes a "business decision" exception based on underwriting factors as described above and it is because she feels there is an offsetting risk classification reason, then I don't think that is a business decision, it is underwriting judgment. If the reason can't be supported by sound underwriting reasoning then that is an exception;*
- *All decisions with automatic reinsurance are required to have a basis in underwriting for the decision; otherwise, they are sent for facultative review;*
- *Our established and reinsurer-approved stretch guidelines reduce the actual number of business decisions. We try to make the best offer the first time;*
- *We have two distinct components of Business Decisions. The first we call "exceptions." These are based on evidence and judgment. An example would be offsetting an unfavorable build value with a negative stress test. Most Business decisions are of this type. The second we call "business decisions." These are not based on any evidence or judgment. All of the data that we maintain is on a combined basis for both types of Business Decisions;*
- *They are the same for all classes. It is based on the profitability of other lines and the competitive environment that may exist;*

- *We start with the automatic reinsurers. If they prefer not to help with an exception, we consider exceptions within retention or issuing at the exception rate, but paying the reinsurers the true assessment rate. Actuarial analysis is done re the cost of the exception, and executives from insurance operations, underwriting, marketing and actuarial are involved in the decision making;*
- *Very controlled circumstances for making any business decision and all are priced and often will claw back commissions;*
- *Most of our business decisions are requested by the agent to allow for better placement possibilities;*
- *Any exceptions to published guidelines on reinsured business that should merit a better classification based on underwriting judgment is done only with reinsurer approval;*
- *Business decisions require facultative approval for any action that would otherwise be automatic. All decisions bound automatically require an actuarial and underwriting basis for the decision.*
- *The process would change because the underwriter desires assistance when the risk is higher or the magnitude is higher, not because it is required of the underwriter;*
- *Business decisions have always been made on occasion, thus their effects are part of insured mortality data. To claim that they are not part of reinsurers' pricing is bogus. There is a difference between use and abuse of business decisions, and reinsurers need to recognize this;*
- *Tobacco users rarely if ever get a business decision on anything. In fact, if we know the client smokes 2 ppd or more, we even add debits;*
- *This survey seems to be built on the assumption that underwriting criteria is very clear cut. Other than with some preferred criteria, the underwriter is applying mostly judgment which means to me, that there really isn't a business decision exception to make as long as the reasoning is sound--that's underwriting! However, there are times when an underwriter can not justify taking an action within the context of sound underwriting principles -- then it comes into the realm of exception processing. We have and allow very little of this;*
- *We are a marketing organization with the objective to write profitable business. Our guidelines are designed to aid us in pricing business to be profitable. There are situations outside our guidelines that still meet our objective of writing profitable business;*
- *We look at[business decisions on] a case by case basis;*
- *Preferred & Impaired Risk exceptions are based on exercising underwriter judgment beyond the published guidelines. We use this philosophy in defining Business Decisions/Exceptions within this survey;*

- *Decisions not based in underwriting or actuarial science are considered facultatively unless wholly retained where the "underwriting decision" is consistent with our thinking, but not reinsurance (this is rare); and*
- *We make VERY few Business Decisions, and either consult our reinsurers or fully retain each one.*